Measure Would Separate Investment & Commercial Banking to Protect the Public

Washington, DC - In an effort to restore commonsense and important safeguards to the financial sector, Congressman Maurice Hinchey (D-NY) today introduced a bill that would reinstate the Banking Act of 1933, better known as the Glass-Steagall Act, in order to separate investment banking from commercial banking. The congressman, who introduced the Glass-Steagall Restoration Act with Reps. Jay Inslee (D-WA) and John Conyers (D-PA), said he intends for the measure to break up oversized banks, restore consumer protections, and avoid future financial collapses like the one that began in 2008.

"Following the Great Depression, Congress wisely separated investment banking from commercial banking to prevent big banks from using depositor's money for risky trades," said Hinchey. "Unfortunately, Congress repealed the Glass-Steagall Act in 1999 and the American people are still paying the price after the financial market meltdown that occurred in 2008. We have made some progress in addressing this with the Wall Street Reform bill that was passed last year. Even so, the comingling of investment and commercial banking has persisted, and as a result, our economy is still at risk. This legislation would reinstate the basic rule that preserved the security of our financial markets for nearly 70 years and would help prevent another bailout."

"We must view a once-in-a-generation collapse of the capital markets as a once-in-a-generation opportunity to address the recurring dangers that threaten our system," said Conyers. "A return of Glass-Steagall is an important part of this discussion and an example of what the federal government can do when confronting a big problem with a core solution."

"In 1999 I stood up to preserve common sense protections that created a firewall between investment and commercial banking," explained Rep. Inslee. "In light of collapse of the financial sector and subsequent economic recession which began in 2007, it would be wise for us to revisit those protections. Glass-Steagall was a good law that didn't restrict access to capital for businesses, but rather kept investors from using depositors' money without their knowledge and without their consent. Without Glass-Steagall, depositor funds were used to make complex financial deals driven by the fees managers collected and not the long-term value of the investment. We must demand better."

The Glass-Steagall Act was repealed in 1999 by the Gramm-Leach-Bliley Act, which Hinchey strongly opposed and voted against. That bill paved the way for the establishment of super-sized banks that serve as both commercial lending institutions and investment companies. Today, just four huge financial institutions hold half the mortgages in America, issue nearly two-thirds of credit cards nationwide, and control about 40 percent of all U.S. bank deposits. In addition, the face value of over-the-counter derivatives at commercial banks has grown to $290 trillion and 95 percent of those derivatives are held at just five financial institutions.

Hinchey recently sent a letter with nine other U.S. House members, urging Federal Reserve Chairman Ben Bernanke to prevent Wall Street banks from sidestepping a new rule designed to prevent commercial banks from engaging in proprietary trading. The new rule, called the Volker Rule, is a weaker version of the Glass-Steagall reform Hinchey is again seeking to restore. Earlier this year, Hinchey urged Bernanke to swiftly implement the Volker Rule.

In December 2009, Hinchey offered an amendment to the Wall Street Reform bill that would have restored the Glass-Steagall Act as part of the broader financial regulatory reform legislation. That amendment was blocked from coming up for a vote before the full House.

In the previous session of Congress, Hinchey introduced the Too Big to Fail, Too Big to Exist Act, which would require the Secretary of the Treasury to dismantle any U.S. financial institution deemed to be so big that its potential collapse would undermine the entire U.S. economy.